

Message Text

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ACTION EUR-12

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SUBJ: SWISS FINANCIAL AND ECONOMIC DEVELOPMENTS: WEEK OF JULY
20-26

1. SUMMARY: INTEREST RATE DIFFERENTIALS AND LIQUIDATION
OF SHORT POSITIONS PUSHED THE DOLLAR UPWARD THIS WEEK,
ALTHOUGH THERE WAS A PARTIAL REGRESSION ON FRIDAY. THE
MONEY MARKET WAS VERY LIQUID, AND BOTH SHORT- AND MEDIUM-
TERM INTEREST RATES DECLINED. FEDERAL TAX COLLECTIONS DURING
THE FIRST SIX MONTHS OF 1975 WERE BELOW EXPECTATIONS DUE
TO THE RECESSION AND INDICATE THAT THE CONFEDERATION'S
REVENUES FOR THE YEAR COULD BE SF 500 MILLION LESS THAN
BUDGETED.

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FINANCIAL

2. GOLD AND FOREIGN EXCHANGE: THE SPOT DOLLAR WAS RELATIVELY STABLE IN THE FIRST TWO DAYS OF TRADING THIS WEEK, BUT ON JULY 23 THE MARKET WAS NERVOUS AND THE DOLLAR ROSE IN ACTIVE TRADING TO REACH THE WEEK'S AND THE YEAR'S HIGH OF SF 2.6820. ON JULY 25 THE MARKET WAS AGAIN NERVOUS, BUT THIS TIME THE DOLLAR CAME UNDER SELLING PRESSURE AND FELL BACK TO A POINT ABOUT MIDWAY BETWEEN THE OPENING AND THE HIGH FOR THE WEEK. HEAVY INTERVENTION BY THE SWISS NATIONAL BANK (SNB) COULD NOT STEM THE DOLLAR'S REGRESSION NOR CHANGE THE FRANC'S RELATION TO THE D MARK. ALL THE ACTION WAS IN FOREIGN EXCHANGE AND THE GOLD MARKET WAS VERY QUIET. RATES AS FOLLOWS:

	7/21 (OPEN)	7/25(CLOSE)
SPOT DOLLAR	SF 2.6460	SF 2.6600
DISCOUNTS		
ONE MONTH	-2.6	-2.1
3 MONTHS	-2.8	-2.6
6 MONTHS	-2.4	-2.4
SF/IM	SF 105.60	SF 105.43
GOLD	\$163.75	\$165.75

3. MONEY AND CAPITAL MARKETS: THE RISING DOLLAR HAS PROMPTED MANY BANK CUSTOMERS TO CLOSE OUT THEIR SHORT DOLLAR POSITIONS AND, AS A RESULT, THE BANKS FOUND THEMSELVES IN VERY LIQUID POSITIONS. THE CALL MONEY RATE WAS UNCHANGED AT 1.0 PERCENT ALL WEEK AND ON FRIDAY, JULY 25, MONEY FOR USE OVER THE END OF JULY WAS READILY AVAILABLE AT BETWEEN 6 AND 7 PERCENT. SWISS INTEREST RATES CONTINUED TO MOVE LOWER AND ON JULY 24 THE MAJOR BANKS LOWERED THEIR PRIVATE DISCOUNT RATE FROM 6.5 TO 6.0 PERCENT (ON APRIL 1 THE RATE WAS CUT FROM 7.0 TO 6.5 PERCENT, SEE BERN A-071). THE BANKS ALSO ANNOUNCED THAT EFFECTIVE JULY 28 THE INTEREST RATES ON MEDIUM-TERM BANK BONDS WOULD BE REDUCED BY 0.25 PERCENTAGE POINTS: THE NEW RATES WILL BE 6.0 PERCENT FOR 3-4 YEAR BONDS, 6.5 PERCENT FOR 5-6 YEAR BONDS. AND 7.0 PERCENT FOR 7-8 YEAR BONDS. TURNOVER ON SWISS STOCK EXCHANGES WAS LOW AND PRICES WERE RELATIVELY STEADY DESPITE THE DECLINE ON UNCLASSIFIED

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WALL STREET; THE SKA INDEX OF AVERAGE PRICES WAS 189.3 (END 1959 EQUALS 100) ON JULY 25, VIRTUALLY UNCHANGED FROM THE PREVIOUS FRIDAY. THE MEDIAN YIELD ON OUTSTANDING CONFEDERATION BONDS WAS 6.45 PERCENT ON JULY 25, DOWN SLIGHTLY FROM 6.48 PERCENT ON JULY 18.

4. TAX COLLECTIONS: THE CONFEDERATION'S FISCAL RECEIPTS (DIRECT AND INDIRECT TAXES, WHICH ACCOUNT FOR ABOUT 91

PERCENT OF ORDINARY BUDGET REVENUES) AMOUNTED TO SF 6,105 MILLION IN THE FIRST SIX MONTHS OF 1975. ALTHOUGH THIS IS 15.8 PERCENT ABOVE RECEIPTS IN THE FIRST HALF OF 1974, A COMMUNIQUE ISSUED BY THE FINANCE DEPARTMENT STATES THAT THE PATTERN OF TAX COLLECTIONS THIS YEAR IS SUFFICIENTLY DIFFERENT FROM 1974 TO MAKE YEAR-TO-YEAR COMPARISONS DIFFICULT. THE FINANCE DEPARTMENT SUGGESTS THAT 1973 IS A BETTER YEAR FOR COMPARISON (DURING WHICH COLLECTIONS IN THE FIRST HALF OF THE YEAR GREATLY EXCEEDED THOSE OF THE LAST HALF) AND PREDICTS THAT TOTAL FISCAL RECEIPTS FOR 1975 WILL FALL SHORT OF BUDGET ESTIMATES. IN THE FIRST SIX MONTHS OF THIS YEAR, COLLECTIONS OF WHOLESALE AND RETAIL TURNOVER TAXES, GASOLINE TAXES, AND CUSTOMS DUTIES WERE BELOW EXPECTATIONS DUE TO THE RECESSION. MOREOVER, THE REJECTION OF THE HEATING OIL TAX IN THE JUNE 8 REFERENDUM WILL MEAN A REVENUE LOSS OF APPROXIMATELY SF 70 MILLION IN THE LAST HALF OF 1975. WHILE THE FINANCE DEPARTMENT DECLINED TO PLACE A FIGURE ON THE AMOUNT OF THE FISCAL SHORTFALL, THE EMBASSY ESTIMATES (BASED ON THE 1973 PATTERN OF TAX COLLECTIONS) THAT TOTAL REVENUES FOR 1975 COULD BE APPROXIMATELY SF 500 MILLION LESS THAN BUDGETED, OR GREATER THAN THE SF 458 DEFICIT SHOWN IN THE REVISED 1975 BUDGET (BERN A-55). IN THE PAST TWO YEARS THE CONFEDERATION'S ACTUAL BUDGET DEFICITS HAVE GREATLY EXCEEDED THE ESTIMATES AT THE BEGINNING OF EACH YEAR; IT APPEARS LIKELY THAT THIS TREND WILL CONTINUE IN 1975.

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